

Message Text

CONFIDENTIAL

PAGE 01 LIMA 09310 111606Z

60

ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 L-01 EB-03 TRSE-00 CIEP-01 COME-00

INR-05 NSC-05 NSCE-00 CIAE-00 SP-01 EA-06 /043 W

----- 091327

R 111515Z NOV 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 7563

C O N F I D E N T I A L LIMA 9310

LIMDIS

FOR ARA - WILLIAM ROGERS; L - MARK FELDMAN; EB - THOMAS ENDERS,
TREASURY - JOHN BUSHNELL; CIEP - WAYNE SHARPE; COMMERCE - DAN
ARRIL

EO 11652: GDS

TAGS: EIND, EINV, EMIN, PFOR, PE

SUBJ: MARCONA EXPROPRIATION: MEETING WITH MARCONA OFFICIALS

1. SUMMARY: WASHINGTON TEAM MET WITH MARCONA OFFICIALS
MONDAY AFTERNOON TO REVIEW OUR STRATEGY AND OBTAIN CLARI-
FICATION ON A NUMBER OF ISSUES. WHILE CONTINUING TO RESIST
BOOK VALUE APPROACH, FURTH CLARIFIED A NUMBER OF DIVERGENCIES
BETWEEN GOP AND MARCONA BOOK VALUE FIGURES. MARCONA OFFI-
CIALS CONTINUED TO SEE SOME ARRANGEMENT INVOLVING SALES AND
SHIPMENT OF ORE AS METHOD FOR ACHIEVING SETTLEMENT THAT IS
BOTH ADEQUATE AND POLITICALLY TOLERABLE. MARCONA WANTS PROMPT
SETTLEMENT, BUT IS PREPARED TO WAIT IF NECESSARY TO GET
ADEQUATE COMPENSATION. END SUMMARY

2. WASHINGTON TEAM MET WITH FURTH, COMPTON, AND
BRADFIELD MONDAY AFTERNOON AT 2:30 P.M. TO BRIEF THEM
ON OUR INTENTIONS THIS TRIP AND EXPLORE MARCONA POSITION
AT THIS TIME, AS WELL AS TO SEEK CLARIFICATION ON CERTAIN
POINTS.

3. FISHLOW REQUESTED CLARIFICATION OF DIFFERENCES BETWEEN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LIMA 09310 111606Z

MARCONA'S DOLLAR AND SOL ACCOUNTS. THERE IS A DIFFERENCE

OF ABOUT \$22 MILLION IN VALUE OF PLANT AND EQUIPMENT. FURTH EXPLAINED DIVERGENCIES IN TERMS OF (A) DIFFERENT DEPRECIATION PRACTICES IN U.S. AND PERU AND (B) PRIOR SHIFT FROM DOLLAR BOOKS TO SOL BOOKS IN PERU WHICH DID NOT PERMIT USE OF FULLY REALISTIC EXCHANGE RATES. ABOUT FOUR-FIFTHS OF DIFFERENCES IS RESULT OF HIGHER RATE OF DEPRECIATION IN PERUVIAN BOOKS.

4. AT THIS POINT, FURTH REITERATED MARCONA'S VIEW THAT THERE WAS NO BASIS IN PERUVIAN LAW FOR THE BOOK VALUE SETTLEMENT AND THAT GOING CONCERN OR APPRAISAL VALUE WAS APPROPRIATE. WASHINGTON TEAM RESPONDED THAT WHILE WE HAD MADE IT CLEAR U.S. DID NOT ACCEPT BOOK VALUE AS THE PROPER CRITERIA FOR VALUATION. WE WANTED TO BE IN POSITION TO NOTE FLAWS IN GOP PRESENTATION ON THAT BASIS.

5. IN RESPONSE TO QUERY, FURTH HELD JUSTIFICATION FOR USE OF DOLLAR RATHER THAN SOL BOOKS IN VALUING CAPITAL ASSETS WAS THAT THOSE ASSETS WERE PURCHASED IN DOLLARS.

6. FISHLOW ASKED FOR CLARIFICATION REGARDING CURRENT STATUS OF MARCONA'S ORE CONTRACTS AND ASKED WHETHER PERU COULD NOW SELL PELLETS FOR MORE THAN MARCONA CONTRACT PRICE. FURTH NOTED VALUE OF CONTRACTS WAS DECREASING AS TIME WENT BY AND BUYERS MADE OTHER ARRANGEMENTS FOR ORE. HE AGREED THAT PERU MIGHT WELL BE ABLE TO FIND SOME BUYERS NOW FOR PELLETS AT PRICE ABOVE CONTRACT PRICE. HE SAID, HOWEVER, THAT BEST MARKET STRATEGY WOULD BE TO MEET COMMITMENTS UNDER EXISTING CONTRACTS AND RENEGOTIATE FOR HIGHER PRICES WHEN THEY EXPIRE.

7. FISHLOW ASKED WHETHER MARCONA WOULD BE WILLING TO TAKE ALL PRODUCTION FOR CERTAIN PERIOD UNDER SPECIFIED CONDITIONS AS PART OF SETTLEMENT. FURTH SAID HE SAW ESSENTIALLY TWO ALTERNATIVES FOR MARCONA: (A) TAKE JUST PELLETS, OR (B) REESTABLISH WHOLE SALES AND SHIPPING PACKAGE FOR A PERCENTAGE OF THE TAKE.

8. WASHINGTON TEAM ASKED WHETHER THERE ARE SINTER FEED CONTRACTS. FURTH REPLIED THAT THERE WERE SOME BUT THAT CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LIMA 09310 111606Z

GIVEN THE DELAY HE CONSIDERED THEM VIRTUALLY UNENFORCEABLE.

9. FURTH EXPRESSED THE BELIEF THAT MARCONA COULD REINSTATE THE PACKAGE OF JAPANESE CONTRACTS AT PREEXISTING PRICES, BUT NO HIGHER. WHEN ASKED ABOUT SHIPPING RATES AND COMMISSIONS, FURTH SAID THAT IF EVERYTHING ELSE WAS IN LINE THEY COULD BE FLEXIBLE WITH REGARD TO AGREEING TO

LOWER GOING RATES AND COMMISSIONS OVER NEXT TWO YEAR PERIOD.

10. IN ANSWER TO QUESTION REGARDING TIME IT WOULD TAKE TO GET ORE MOVING AGAIN, FURTH SAID THEY COULD START SHIPPING IN A FEW DAYS, REACH A SIGNIFICANT SHIPPING RATE IN THIRTY DAYS, AND BE BACK TO NORMAL RATE IN NINETY DAYS. HE SAID MARCONA WAS RENTING FOUR JAPANESE SHIPS AND OWNS TWO SPECIALIZED SLURRY SHIPS (THE ONLY ONES IN EXISTENCE) WHICH WOULD BE AVAILABLE FOR THIS PURPOSE.

11. FURTH VOLUNTEERED THAT PERU'S INTEREST MIGHT BE WELL SERVED BY DEALING WITH THE JAPANESE ON AN F.O.B. BASIS, WITH THE ARRANGEMENTS ON SHIPPING BEING BETWEEN MARCONA AND JAPAN. HE INDICATED SUCH A THREE-WAY DEAL MIGHT HAVE POSSIBILITIES.

12. FISHLOW PROBED MARCONA OFFICIALS ON THEIR TIME HORIZON ON A SETTLEMENT. FURTH SAID MARCONA WANTED PROMPT SETTLEMENT, BUT HAD NOW MADE NECESSARY CORPORATE ADJUSTMENT SO THAT THEY WERE IN A POSITION TO WAIT. HE EXPRESSED VIEW THAT TIME IS NOT WORKING AGAINST MARCONA.

13. WASHINGTON TEAM EXPRESSED UNDERSTANDING THAT MARCONA NOT INTERESTED IN TRADING INADEQUATE SETTLEMENT NOW FOR ADEQUATE ONE LATER, BUT RAISED POSSIBILITY THAT WE MAY NOW HAVE A WINDOW FOR SETTLEMENT IF WE MOVE EXPEDITIOUSLY, AND THAT AS GOOD AN OPPORTUNITY FOR SETTLEMENT MAY NOT RECUR SOON AGAIN. IN THAT REGARD, FISHLOW STRESSED THAT WE WERE INTERESTED IN A SATISFACTORY SETTLEMENT AND WOULD NOT AGREE, FOR EXAMPLE, EVEN TO PRESENT A \$20 MILLION PROPOSAL FROM PERU TO MARCONA AS A SERIOUS OFFER.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 LIMA 09310 111606Z

14. COMMENT: MARCONA OFFICIALS APPEARED SENSITIVE TO CURRENT DEVELOPMENTS IN POLITICAL SITUATION IN PERU AND NEED TO COME UP WITH SETTLEMENT PACKAGE WHICH WOULD BE BOTH ADEQUATE AND POLITICALLY TOLERABLE. LOGIC OF SITUATION APPEARS TO BE MOVING BOTH GOP AND MARCONA TOWARDS RECONSIDERATION OF WAYS IN WHICH BOTTOM LINE FIGURE COULD BE FUZZED THROUGH ARRANGEMENTS FOR PAYMENTS IN KIND, POSSIBLY INVOLVING SHIPPING AND SALES ELEMENTS. FURTH EXPRESSED VIEW THAT ONCE GAP IN VALUATION OF ASSETS BETWEEN GOP AND MARCONA SUFFICIENTLY NARROWED, WAYS COULD BE FOUND TO WORK OUT A SETTLEMENT ARRANGEMENT ACCEPTABLE TO ALL PARTIES.
DEAN

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMPENSATION, NATIONALIZATION, DISPUTE SETTLEMENT, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 NOV 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LIMA09310
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750392-0601
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751155/aaaabxal.tel
Line Count: 168
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 12 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 SEP 2003 by CunninFX>; APPROVED <17 SEP 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MARCONA EXPROPRIATION: MEETING WITH MARCONA OFFICIALS
TAGS: EIND, EINV, EMIN, PFOR, PE, MARCONA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006